

**REPORT OF THE AUDIT OF THE
OWEN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Owen County Fiscal Court for fiscal year ended June 30, 2010. We have issued unqualified opinions, based on our audit, on the governmental activities and each major fund of Owen County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Owen County's major federal program: Community Development Block Grants/States Program and Non-Entitlement Grants in Hawaii (CFDA #14.228).

Financial Condition:

The fiscal court had net assets of \$21,969,800 as of June 30, 2010. The fiscal court had unrestricted net assets of \$802,122 in its governmental funds as of June 30, 2010. The fiscal court had total debt principal as of June 30, 2010 of \$12,681,269 with \$518,083 due within the next year.

Report Comments:

2010-01	The County Waste Management Division Should Issue Receipts In Accordance With KRS 64.840
2010-02	Internal Controls Over Reconciliations Should Be Improved
2010-03	The County Should Maintain Complete And Accurate Capital Asset Schedules

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Carolyn Keith, Owen County Judge/Executive
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Owen County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Owen County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Owen County, Kentucky, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Carolyn, Owen County Judge/Executive
Members of the Owen County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Owen County, Kentucky's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2011, on our consideration of Owen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

2010-01	The County Waste Management Division Should Issue Receipts In Accordance With KRS 64.840
2010-02	Internal Controls Over Reconciliations Should Be Improved
2010-03	The County Should Maintain Complete And Accurate Capital Asset Schedules

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 11, 2011

OWEN COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Carolyn H. Keith	County Judge/Executive
Teresa Davis	Magistrate
Bobby Gaines	Magistrate
Jerry Jones	Magistrate
Ray Smith	Magistrate

Other Elected Officials:

Charles Carter	County Attorney
David Bruce	Jailer
Joan Kinkaid	County Clerk
Leigh New	Circuit Court Clerk
Zemer Hammond	Sheriff
Jimmy Coyle	Property Valuation Administrator
Lannis Garnett	Coroner

Appointed Personnel:

Norma McDonald	County Treasurer
Pam Miller	Finance Officer

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OWEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

OWEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 11,545,841
Total Current Assets	<u>11,545,841</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	615,000
Construction In Progress	392,825
Land Improvements	39,200
Buildings	554,052
Vehicles and Equipment	899,055
Infrastructure Assets	<u>20,605,096</u>
Total Noncurrent Assets	<u>23,105,228</u>
Total Assets	<u>34,651,069</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations	43,083
Revenue Bonds	<u>475,000</u>
Total Current Liabilities	<u>518,083</u>
Noncurrent Liabilities:	
Financing Obligations	83,186
Revenue Bonds	<u>12,080,000</u>
Total Noncurrent Liabilities	<u>12,163,186</u>
Total Liabilities	<u>12,681,269</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	21,167,678
Unrestricted	<u>802,122</u>
Total Net Assets	<u>\$ 21,969,800</u>

The accompanying notes are an integral part of the financial statements.

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OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,561,379	\$ 11,021	\$ 107,888	\$ 952,280
Protection to Persons and Property	1,125,130	636,565	95,733	
General Health and Sanitation	163,394	131,871		
Social Services	48,013			
Recreation and Culture	55,979			
Roads	2,111,535		1,131,420	
Debt Service	444,668			
Capital Projects	1,290,976			
Total Governmental Activities	\$ 6,801,074	\$ 779,457	\$ 1,335,041	\$ 952,280
General Revenues:				
Taxes:				
Real Property Taxes				
Personal Property Taxes				
Motor Vehicle Taxes				
Other Taxes				
Excess Fees				
Interest				
Miscellaneous Revenues				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning (Restated)				
Net Assets - Ending				

The accompanying notes are an integral part of the financial statements.

OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental
Activities

\$	(490,190)
	(392,832)
	(31,523)
	(48,013)
	(55,979)
	(980,115)
	(444,668)
	<u>(1,290,976)</u>
	<u>(3,734,296)</u>
	467,537
	4,528
	104,630
	688,527
	136,044
	63,763
	<u>403,211</u>
	<u>1,868,240</u>
	<u>(1,866,056)</u>
	<u>23,835,856</u>
\$	<u><u>21,969,800</u></u>

The accompanying notes are an integral part of the financial statements.

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OWEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

OWEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 457,802	\$ 317,120	\$ 27,200	\$ 10,743,719	\$ 11,545,841
Total Assets	<u>457,802</u>	<u>317,120</u>	<u>27,200</u>	<u>10,743,719</u>	<u>11,545,841</u>
FUND BALANCES					
Reserved for:					
Capital Projects Fund				10,743,719	10,743,719
Unreserved:					
General Fund	457,802				457,802
Special Revenue Funds		317,120	27,200		344,320
Total Fund Balances	<u>\$ 457,802</u>	<u>\$ 317,120</u>	<u>\$ 27,200</u>	<u>\$ 10,743,719</u>	<u>\$ 11,545,841</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 11,545,841
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	37,607,389
Accumulated Depreciation	(14,502,161)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(126,269)
Bonds	<u>(12,555,000)</u>
Net Assets Of Governmental Activities	<u>\$ 21,969,800</u>

The accompanying notes are an integral part of the financial statements.

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OWEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

OWEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 1,265,153	\$	\$	\$	\$ 1,265,153
Excess Fees	136,044				136,044
Intergovernmental	1,074,654	1,131,420	83,111	369	2,289,554
Charges for Services	776,452		481		776,933
Miscellaneous	227,285	176,286			403,571
Interest	6,348	2,081		55,334	63,763
Total Revenues	<u>3,485,936</u>	<u>1,309,787</u>	<u>83,592</u>	<u>55,703</u>	<u>4,935,018</u>
EXPENDITURES					
Current:					
General Government	687,462				687,462
Protection to Persons and Property	938,029		265,558		1,203,587
General Health and Sanitation	250,476				250,476
Social Services	47,811				47,811
Recreation and Culture	52,553				52,553
Roads		931,210			931,210
Debt Service				242,030	242,030
Capital Projects	805,111			712,913	1,518,024
Administration	620,587	221,644	17,297		859,528
Total Expenditures	<u>3,402,029</u>	<u>1,152,854</u>	<u>282,855</u>	<u>954,943</u>	<u>5,792,681</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>83,907</u>	<u>156,933</u>	<u>(199,263)</u>	<u>(899,240)</u>	<u>(857,663)</u>
Other Financing Sources (Uses)					
Payment of Bond Anticipation Note				(4,500,000)	(4,500,000)
Discount On Bond Issuance				(202,638)	(202,638)
Revenue Bond Proceeds				12,555,000	12,555,000
Transfers From Other Funds	30,000	(30,000)	219,000		219,000
Transfers To Other Funds	(219,000)				(219,000)
Total Other Financing Sources (Uses)	<u>(189,000)</u>	<u>(30,000)</u>	<u>219,000</u>	<u>7,852,362</u>	<u>7,852,362</u>
Net Change in Fund Balances	(105,093)	126,933	19,737	6,953,122	6,994,699
Fund Balances - Beginning	562,895	190,187	7,463	3,790,597	4,551,142
Fund Balances - Ending	<u>\$ 457,802</u>	<u>\$ 317,120</u>	<u>\$ 27,200</u>	<u>\$ 10,743,719</u>	<u>\$ 11,545,841</u>

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

OWEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 6,994,699
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	514,458
Depreciation Expense	(1,273,747)
Assets disposed of, net book value	(3,000)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligations Proceeds	(111,189)
Financing Obligations Principal Payments	67,723
Revenue Anticipation Note Payments	4,500,000
Revenue Bond Proceeds	<u>(12,555,000)</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (1,866,056)</u></u>
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TO THE FINANCIAL STATEMENTS**

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OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Owen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Owen County Public Properties Corporation

The Board of Directors of the Owen County Public Properties Corporation is the Owen County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to Owen County Fiscal Court. The Fiscal Court has access to the Corporation's resources, and is legally obligated to finance the debts or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. The component unit is blended within the financial statements of the County as the Public Properties Corporation Fund.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Owen County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Owen County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The County has no fiduciary type funds.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds of debt issuance by the Corporation and the construction of a justice center.

Special Revenue Funds:

The Road Fund and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Public Properties Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

E. Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 2,000	10-60
Buildings and Building Improvements	\$ 2,000	10-75
Machinery and Equipment	\$ 2,000	3-25
Vehicles	\$ 2,000	3-25
Infrastructure	\$ 2,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Funds for the Public Properties Corporation are not required to be budgeted. The bond payments are budgeted in other county funds.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 615,000	\$	\$	\$ 615,000
Construction In Progress	165,777	227,048		392,825
Total Capital Assets Not Being Depreciated	780,777	227,048		1,007,825
Capital Assets, Being Depreciated:				
Land Improvements	50,000			50,000
Buildings	683,128			683,128
Vehicles and Equipment	2,209,602	287,410	(122,833)	2,374,179
Infrastructure	33,492,257			33,492,257
Total Capital Assets Being Depreciated	36,434,987	287,410	(122,833)	36,599,564
Less Accumulated Depreciation For:				
Land Improvements	(9,000)	(1,800)		(10,800)
Buildings	(118,829)	(10,247)		(129,076)
Vehicles and Equipment	(1,469,830)	(125,127)	119,833	(1,475,124)
Infrastructure	(11,750,588)	(1,136,573)		(12,887,161)
Total Accumulated Depreciation	(13,348,247)	(1,273,747)	119,833	(14,502,161)
Total Capital Assets, Being Depreciated, Net	23,086,740	(986,337)	(3,000)	22,097,403
Governmental Activities Capital Assets, Net	\$ 23,867,517	\$ (759,289)	\$ (3,000)	\$ 23,105,228

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 14,389
Protection to Persons and Property	70,312
General Health and Sanitation	8,093
Social Services	202
Recreation and Culture	3,426
Roads, Including Depreciation of General Infrastructure Assets	<u>1,177,325</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,273,747</u>

Note 4. Long-Term Debt

A. Ambulance – Financing Obligation

On August 10, 2005, Owen County Fiscal Court entered into a \$100,000 five year financing agreement with Oshkosh Capital to purchase one ambulance at an interest rate of 4.12%. As of June 30, 2010, this lease was paid in full.

B. Ambulance – Financing Obligation

On January 18, 2008, Owen County Fiscal Court entered into a \$75,000 three-year financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to purchase a new ambulance. The agreement calls for monthly payments in varying amounts with the agreement to be paid in full on January 20, 2011. Debt service requirements for the remainder of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 15,080	\$ 299
Totals	<u>\$ 15,080</u>	<u>\$ 299</u>

C. Ambulance – Financing Obligation

In September 17, 2009, the Owen County Fiscal Court entered into an \$87,000 five year loan agreement with the United States Department of Agriculture (USDA) for the purchase of an ambulance with an interest rate of 4.375%. The agreement calls for monthly interest payments in varying amounts with monthly principal payments. Debt service requirements for the remainder of the agreement are as follows:

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

C. Ambulance – Financing Obligations (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 16,500	\$ 3,107
2012	17,500	2,385
2013	18,000	1,619
2014	19,000	832
Totals	<u>\$ 71,000</u>	<u>\$ 7,943</u>

D. Sheriff's Vehicles – Financing Obligation

In October 26, 2009, the Owen County Fiscal Court entered into a \$47,766 four-year lease agreement with Leasing One Corporation, a subsidiary of Farmer's Bank and Capital Trust Co., for the purchase of two vehicles for the Owen County Sheriff's Department. The agreement calls for monthly interest and principal payments of \$1,074.52. Debt service requirements for the remainder of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 11,503	\$ 1,391
2012	11,969	925
2013	12,454	440
2014	4,263	35
Totals	<u>\$ 40,189</u>	<u>\$ 2,791</u>

E. Public Properties Corporation – Court Facilities Project

In May 2008, the Owen County Public Properties Corporation entered into an agreement for the issuance of \$4,500,000 in First Mortgage Revenue Bond Anticipation Notes to finance costs during the initial construction phase of a Justice Center. The notes were issued for a two-year period, with semi-annual interest payments due May 1 and November 1 each year, beginning November 1, 2008, and principal due upon maturity at May 1, 2010. Principal on the notes were paid in full from the issuance of revenue bonds in April 2010, where Owen County Public Properties Corporation entered into an agreement for the issuance of \$12,555,000 First Mortgage Revenue Bonds, Series 2010, for the costs of the overall project. The bonds were issued for a twenty year period, with semi-annual interest payments due May 1 and November 1 of each year beginning November 1, 2010, and principal due upon maturity at May 1, 2030. Debt service requirements for the Revenue Bonds are as follows:

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

E. Public Properties Corporation – Court Facilities Project

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2011	\$ 475,000	\$ 434,095
2012	485,000	424,575
2013	490,000	417,785
2014	500,000	409,455
2015	510,000	399,455
2016-2020	2,770,000	1,776,779
2021-2025	3,305,000	1,243,650
2026-2030	4,020,000	521,379
Totals	<u>\$ 12,555,000</u>	<u>\$ 5,627,173</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations (Restated)	\$ 82,803	\$ 111,189	\$ 67,723	\$ 126,269	\$ 43,083
Revenue Anticipation Note	4,500,000		4,500,000		
Revenue Bonds		12,555,000		12,555,000	475,000
Governmental Activities					
Long-term Liabilities	<u>\$ 4,582,803</u>	<u>\$12,666,189</u>	<u>\$ 4,567,723</u>	<u>\$12,681,269</u>	<u>\$ 518,083</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Protection to Persons and Property on the Statement of Activities includes \$7,514 in interest on financing obligation.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 6. Employee Retirement System (Continued)

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

The Owen County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2010, Owen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The beginning net assets of governmental activities has been restated for a debt payment that was improperly included in the prior year. The beginning fund balance of \$23,835,712 was increased by \$144, resulting in a restated beginning balance of \$23,835,856.

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OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,303,000	\$ 1,303,000	\$ 1,265,153	\$ (37,847)
Excess Fees	26,950	136,045	136,044	(1)
Intergovernmental Revenue	1,935,200	2,045,215	1,074,654	(970,561)
Charges for Services	605,000	605,000	776,452	171,452
Miscellaneous	5,000	125,236	227,285	102,049
Interest	5,750	5,750	6,348	598
Total Revenues	<u>3,880,900</u>	<u>4,220,246</u>	<u>3,485,936</u>	<u>(734,310)</u>
EXPENDITURES				
General Government	715,550	768,935	687,462	81,473
Protection to Persons and Property	900,192	1,157,741	938,029	219,712
General Health and Sanitation	201,652	252,445	250,476	1,969
Social Services	45,455	50,392	47,811	2,581
Recreation and Culture	53,273	51,815	52,553	(738)
Debt Service		(12,837)		(12,837)
Capital Projects	1,600,000	1,456,715	805,111	651,604
Administration	571,343	621,605	620,587	1,018
Total Expenditures	<u>4,087,465</u>	<u>4,346,811</u>	<u>3,402,029</u>	<u>944,782</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(206,565)</u>	<u>(126,565)</u>	<u>83,907</u>	<u>210,472</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	70,200	70,200	30,000	(40,200)
Transfers To Other Funds	<u>(141,365)</u>	<u>(141,365)</u>	<u>(219,000)</u>	<u>(77,635)</u>
Total Other Financing Sources (Uses)	<u>(71,165)</u>	<u>(71,165)</u>	<u>(189,000)</u>	<u>(117,835)</u>
Net Changes in Fund Balance	(277,730)	(197,730)	(105,093)	92,637
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>562,895</u>	<u>262,895</u>
Fund Balance - Ending	<u>\$ 22,270</u>	<u>\$ 102,270</u>	<u>\$ 457,802</u>	<u>\$ 355,532</u>

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 987,221	\$ 1,120,621	\$ 1,131,420	\$ 10,799
Miscellaneous	2,000	167,734	176,286	8,552
Interest	1,000	1,000	2,081	1,081
Total Revenues	990,221	1,289,355	1,309,787	20,432
EXPENDITURES				
Roads	788,275	1,134,364	931,210	203,154
Administration	231,746	234,791	221,644	13,147
Total Expenditures	1,020,021	1,369,155	1,152,854	216,301
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(29,800)	(79,800)	156,933	236,733
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(70,200)	(70,200)	(30,000)	40,200
Total Other Financing Sources (Uses)	(70,200)	(70,200)	(30,000)	40,200
Net Changes in Fund Balance	(100,000)	(150,000)	126,933	276,933
Fund Balance - Beginning	100,000	150,000	190,187	40,187
Fund Balance - Ending	\$ 0	\$ 0	\$ 317,120	\$ 317,120

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 78,326	\$ 78,326	\$ 83,111	\$ 4,785
Charges for Services	100	100	481	381
Total Revenues	78,426	78,426	83,592	5,166
EXPENDITURES				
Protection to Persons and Property	199,236	282,166	265,558	16,608
Administration	20,555	17,625	17,297	328
Total Expenditures	219,791	299,791	282,855	16,936
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(141,365)	(221,365)	(199,263)	22,102
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	141,365	141,365	219,000	77,635
Total Other Financing Sources (Uses)	141,365	141,365	219,000	77,635
Net Changes in Fund Balance		(80,000)	19,737	99,737
Fund Balance - Beginning			7,463	7,463
Fund Balance - Ending	\$ 0	\$ (80,000)	\$ 27,200	\$ 107,200

OWEN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

OWEN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OWEN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2010

Federal Grantor

Program Title

Grant Name (CFDA #)

Pass-Through

Grantor's Number

Expenditures

Cash Programs:

U.S Department of Housing and Urban Development

Passed Through the Department for Local Government:

Community Development Block Grants/State's Program

and Non-Entitlement Grants in Hawaii

(CFDA 14.228)

08-017 \$ 785,889

U.S Department of Homeland Security

Direct Program:

Assistance to Firefighters Grant

(CFDA 97.044)

Not Applicable 66,242

Passed Through the Kentucky Office of Homeland Security:

Homeland Security Grant Program

(CFDA 97.067)

Not Applicable 19,673

Total U.S. Department of Homeland Security

85,915

Total Cash Expenditures of Federal Awards

\$ 871,804

OWEN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2010

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Owen County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 – Determination of Major Program

The Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2010 or were deemed high risk. The Type A programs were:

- CFDA #14.228 Community Development Block Grants/States Program and Non-Entitlement Grants in Hawaii.

Note 3 – Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2010.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Keith, Owen County Judge/Executive
Members of the Owen County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 11, 2011. Owen County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owen County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Owen County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Owen County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2010-02 and 2010-03



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owen County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2010-01.

The Owen County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read 'Crit Luallen', written in black ink.

Crit Luallen
Auditor of Public Accounts

March 11, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Keith, Owen County Judge/Executive
Members of the Owen County Fiscal Court

**Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

Independent Auditor's Report

Compliance

We have audited the compliance of Owen County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. Owen County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Owen County's management. Our responsibility is to express an opinion on Owen County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Owen County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Owen County's compliance with those requirements.

In our opinion, Owen County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Owen County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Owen County internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.



Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

March 11, 2011

**OWEN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2010

**OWEN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities and each major fund of Owen County.
2. Two material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Owen County was disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Owen County expresses an unqualified opinion.
6. There are no findings relative to the major federal awards programs for Owen County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grants/State's Program And Non-Entitlement Grants In Hawaii (14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Owen County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

2010-01 The County Waste Management Division Should Issue Receipts In Accordance with KRS 64.840

The Owen County waste management transfer station collects money from customers who take their waste to the transfer station. Customers are given a receipt, but only upon their request. If no receipt is requested, no receipt is prepared and maintained to document the transaction. Daily collections are given to the waste management coordinator and then delivered to the county treasurer for deposit.

The auditor further noted during testing procedures, seven (7) of twenty (20) daily cash register receipt tapes did not agree to the daily deposit. Of these days, an overage in excess of \$14 was noted. Auditor further noted that two (2) of the twenty (20) tested deposits were not made timely (within 3 business days).

Per KRS 64.840 (2), "One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit." Furthermore, good internal controls enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the account process.

OWEN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2010
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2010-01 The County Waste Management Division Should Issue Receipts In Accordance with
KRS 64.840
 (Continued)

Due to the high volume of cash transactions, we recommend that the County implement the following procedures:

- Pre-numbered receipts should be written and maintained for all monies collected at the transfer station, regardless of whether or not the customer requests a receipts;
- Receipts should be batched daily. Total collections for the day should be agreed to total receipts.
- All 3 copies of any voided receipts should be maintained.
- The transfer station should maintain a log of total collections for the day;
- All monies and a copy of the batched receipts should be given to the treasurer; and
- The treasurer should review all receipts to check for missing receipt numbers and recomputed receipts and monies collected each day. In addition, the treasurer and transfer station employee should reconcile the receipt log maintained at the transfer station to the total deposits made by the treasurer on a regular basis to ensure all transfer station receipts are accounted for properly.

County Judge/Executive's Response: We do keep pre-numbered receipts and they are batched daily. A chart is now maintained of daily totals. These changes were made after June 2010.

INTERNAL CONTROL - MATERIAL WEAKNESSES

2010-02 Internal Controls Over Reconciliations Should Be Improved

During the review of internal control procedures, it was noted that bank reconciliations performed by the Finance Officer and Treasurer are not reviewed. The Finance Officer who writes all checks and prepares payroll, also performs the reconciliation on the payroll account. The Treasurer performs the reconciliation procedures over all remaining accounts. By not having the reconciliations reviewed, any errors and/or fraud could go undetected. In addition, account balances could be misstated, which would lead to misstated financial statements. In an effort to decrease the risk of misappropriation or financial statement misstatement, we recommend that the County Judge/Executive perform a documented review of the monthly bank reconciliations by comparing the reconciled balance to the checkbook, reconciling any noted differences.

County Judge/Executive's Response: As Judge, I agree and will be doing a bank reconciliation beginning the end of March on a monthly basis.

OWEN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2010
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

20010-03 The County Should Maintain Complete And Accurate Capital Asset Schedules

Per the Department of Local Government's (DLG) manual, capital asset records are necessary for proper valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. The manual further states that capital asset records should include a description of the asset, historical cost, date of acquisition, date of disposal, useful life of the asset, salvage value depreciation expense, accumulated depreciation, and proceeds from sale or disposal of assets. In addition, the manual states that a capital asset record should be prepared for each acquisition. During the performance of various audit procedures over capital assets, the auditors noted that the County did not have a current capital asset schedule including the information listed above required by DLG. In addition, schedules of additions and/or disposals were not maintained. Two different lists of asset disposals were presented to the auditor during testing. By not maintaining an accurate list of capital assets, the risk increases that capital assets may not be insured or that the County pays insurance for assets they no longer own. In addition, the County will not know whether an asset has been subject to any fraudulent activity. In addition, the risk of financial statement misstatement increases. We recommend that the County maintain a complete and accurate capital asset schedule including information required by DLG, as stated above. We further recommend that the County maintain a schedule of additions as assets are purchased to simplify the process of updating the capital asset schedule. This schedule should include the date the asset was acquired, a description of the asset, the vendor name, the amount, salvage value and useful life. Invoices for asset acquisition should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. We further recommend that as an asset is retired or disposed of, it be removed from the listing. By implementing these procedures, the County will help ensure that capital assets are properly stated.

County Judge/Executive's Response: I agree with the finding and did not realize we had two lists. We have adopted a new system in which our capital assets will be kept up to date in a central location on computer. The Judge, Treasurer, and Finance Officer will have this in their computer.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.

